

Message Text

CONFIDENTIAL

PAGE 01 BONN 01728 01 OF 03 311558Z

46

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-01 CEA-01 PRS-01 PA-01 USIA-06 /080 W

----- 113264

P R 311542Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 7635

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

C O N F I D E N T I A L SECTION 01 OF 03 BONN 01728

PASS TREASURY, FEDERAL RESERVE, AND CEA

E.O. 11652: GDS

TAGS: ECON, EFIN, GW

SUBJECT: FRG ANNUAL ECONOMIC REPORT FOR 1975 RELEASED

REF: (A) BONN 1372; (B) BONN 19235, DEC. 13, 1974

1. SUMMARY. AN OVERLY OPTIMISTIC STATEMENT OF
ECONOMIC GOALS FOR 1975 RATHER THAN REALISTIC FORECAST
BEST CHARACTERIZES THE FRG'S RECENTLY RELEASED
ANNUAL ECONOMIC REPORT. THE TWO PERCENT REAL GNP
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 01728 01 OF 03 311558Z

GROWTH AND THREE PERCENT AVERAGE UNEMPLOYMENT RATE

TARGETS SET IN THE REPORT COULD BE ERRING ON THE SIDE OF OPTIMISM BY ONE POINT IN EACH CASE. HOWEVER, THE GOVERNMENT APPARENTLY SOUGHT TO PROJECT AS POSITIVE A PICTURE AS POSSIBLE FOR PSYCHOLOGICAL AND POLITICAL PURPOSES TO ENCOURAGE VOTER AND INVESTOR ALIKE. REDUCING THE WAGE DEMANDS OF LABOR AND AN IMPROVEMENT IN THE PROFIT SITUATION WERE CLEARLY STATED AS NECESSARY TO GERMANY'S ECONOMIC WELL-BEING. END SUMMARY.

2. A 12-PAGE DRAFT OF THE STATUTORILY REQUIRED ANNUAL ECONOMIC REPORT OF THE FRG WAS RELEASED TO THE PRESS JANUARY 28. IT CONTAINED NO NEW POLICY DEPARTURES OR INITIATIVES AND WAS CENTERED ON A QUANTIFIED SET OF ECONOMIC GOALS RATHER THAN BEING A FORECAST. (SEE TABLE AT END OF CABLE.) THE UNCERTAINTY OF THE INTERNATIONAL SITUATION WAS STRESSED AS AN UNDERLYING FACTOR THAT MADE ANY PROJECTIONS A PROBLEMATICAL UNDERTAKING.

3. THE REPORT'S TARGET IS FOR AVERAGE REAL GNP GROWTH OF ABOUT TWO PERCENT IN 1975 WITH THE YEAR STARTING SLOWLY AND ACTIVITY GRADUALLY ACCELERATING AS T PROGRESSES. AN AVERAGE UNEMPLOYMENT RATE OF APPROXIMATELY THREE PERCENT FOR THE YEAR WAS ALSO STATED AS BEING ATTAINABLE. AN AVERAGE INCREASE IN CONSUMER PRICES (GNP CONCEPT) OF ABOUT SIX PERCENT WAS FIXED AS A GOAL. IT WAS POINTED OUT THAT THIS REFLECTED AN OVERHANG FROM THE PREVIOUS YEAR AND THAT THE REAL GROWTH IN PRICES FROM THE BEGINNING TO THE END OF THE YEAR WOULD BE CLOSER TO FIVE OR FIVE AND ONE-HALF PERCENT. THE NET FOREIGN BALANCE GOAL WAS SET AT BETWEEN DM 35 TO 38 BILLION, OR THREE TO THREE AND ONE-HALF PERCENT OF GNP. IN PRACTICALLY ALL CASES THE GOALS WERE STATED AS BEING WITHIN CERTAIN RANGE RATHER THAN BEING A FIXED, SPECIFIC FIGURE.

4. EMPHASIS WAS GIVEN ON THIS OCCASION, AS IN THE CONCERTED ACTION MEETING OF JANUARY 15 AND IN PREVIOUS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BONN 01728 01 OF 03 311558Z

GOVERNMENT ECONOMIC POLICY STATEMENTS, TO THE IMPORTANCE OF THE IMPROVEMENT OF BUSINESS PROFITS IN ORDER TO STIMULATE INCREASED CAPITAL SPENDING. THE LINKAGE OF INVESTMENT RECOVERY TO ECONOMIC GROWTH AND IMPROVEMENT IN THE EMPLOYMENT SITUATION WAS HEAVILY STRESSED. DEMONSTRATING THIS RELATIONSHIP, THE REPORT'S GROWTH AND EMPLOYMENT GOALS WERE HINGED TO EN EIGHT TO TEN PERCENT INCREASE IN GROSS INCOME

FROM BUSINESS AND PROPERTY AND A LOWER RISE IN GROSS
INCOME FROM WAGES OF SEVEN AND ONE-HALF TO EIGHT
PERCENT. WITHOUT THESE PREREQUISITES THE CONTEMPLATED
ECONOMIC GROWTH AND EMPLOYMENT LEVELS CANNOT BE
ACHIEVED, THE REPORT STATED. THE BURDEN FOR SUCCESS
IN ATTAINING THESE GOALS WAS PLACED ON LABOR'S
ACCEPTANCE OF A SMALLER SHARE OF THE PIE IN THE
DISTRIBUTION OF INCOME BY AGREEING LOWER NEGOTIATED
SALARY INCREASES. (COMMENT: SOME MIGHT THINK THIS A
CURIOUS STANCE FOR A SOCIAL DEMOCRATIC DOMINATED

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 01728 02 OF 03 311610Z

46

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-01 CEA-01 PRS-01 PA-01 USIA-06 /080 W

----- 113445

P R 311553Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 7636

INFO USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL BREMEN

AMCONSUL DUSSELDORF

AMCONSUL FRANKFURT

AMCONSUL HAMBURG

AMCONSUL MUNICH

AMCONSUL STUTTGART

USMISSION USBERLIN

C O N F I D E N T I A L SECTION 02 OF 03 BONN 01728

GOVERNMENT, BUT IT ONLY REVERSES A FAIRLY LONG-TERM TREND IN THE OPPOSITE DIRECTION THAT CULMINATED IN 1974 WHEN BUSINESS INCOME HAD ZERO GROWTH AND WAGE INCOME ROSE BY NEARLY TEN PERCENT.)

5. CONSIDERABLE SPACE WAS GIVEN - TO THE DESCRIPTION OF THE BENEFITS EXPECTED FROM THE DECEMBER 12 ECONOMIC PROGRAM OF THE GOVERNMENT (SEE REFTEL B). ADDITIONALLY, THE TAX REFORM AND CHILDREN'S ALLOWANCES DM 14 BILLION INJECTION WAS CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 01728 02 OF 03 311610Z

CITED AS WAS THE EXPANSIVE NATURE OF THE FEDERAL BUDGET. IT WAS MENTIONED THAT DM 2.4 BILLION OF THE COUNTERCYCLICAL RESERVES WOULD PROBABLY BE USED BY THE STATES TO HELP FINANCE THEIR BUDGET DEFICITS. THIS AMOUNT PLUS THE AMOUNTS RELEASED FOR PREVIOUSLY AUTHORIZED FEDERAL STIMULATIVE PROGRAMS WOULD INDICATE THAT SOME DM 5 BILLION REMAIN TO BE TAPPED FROM THE ORIGINAL DM 10 BILLION COUNTERCYCLICAL FUND. (HOWEVER, LATE WORD INDICATES DM 3 BILLION OF THIS WILL BE USED FOR UNEMPLOYMENT COMPENSATION.) MENTION WAS MADE OF THE GOVERNMENT'S CONSIDERING THE POSSIBILITY OF A "LOSS CARRY-BACK" TO PROVIDE IMMEDIATE TAX REFUNDS FOR SMALLER AND MIDDLE SIZED FIRMS. THE REPORT DECLARED THAT THE GOVERNMENT CONTEMPLATES NO TAX INCREASES.

6. COMMENT: THE REPORT WAS MORE A POLITICAL-PSYCHOLOGICAL DOCUMENT THAN AN OBJECTIVE AND REALISTIC QUANTIFICATION OF GERMANY'S ECONOMIC FUTURE. ON THE ONE HAND, IT WAS INTENDED TO ATTEMPT TO INSTILL SOME OPTIMISM IN THE ELECTORATE, INVESTORS AND CONSUMERS. ON THE OTHER HAND, IT WAS ANOTHER EFFORT AT JAWBONING TO REDUCE THE WAGE DEMANDS OF LABOR. IN EFFECT, IT WAS UP TO LABOR TO PRESENT ONLY MODEST WAGE INCREASE DEMANDS, OTHERWISE THE ECONOMIC APPLECART WOULD BE UPSET. THIS THEME HAS PREVAILED CONSISTENTLY IN THE OUTPUT OF POLICY STATEMENTS (INCLUDING THIS ONE) INITIATING FROM THE ECONOMICS MINISTRY OF FDP MINISTER FRIDERICH (BUT, OF COURSE, WITH THE TACIT IF NOT EXPRESSED APPROVAL OF CHANCELLOR SCHMIDT). HOWEVER, INHERENT IN THE SET OF FIGURES THE REPORT PRESENTED WAS THAT CONTRACTUAL WAGE SETTLEMENTS WOULD HAVE TO BE UNDER FIVE PERCENT (IN VIEW OF THE TWO AND ONE-HALF PERCENT OVERHANG FROM 1974)--A HIGHLY UNLIKELY DEVELOPMENT GIVEN THE RECENT SETTLEMENTS AND CURRENT LABOR DEMANDS. AS A RESULT, GROWTH AND

UNEMPLOYMENT GOALS STATED SEEM UNREALISTICALLY
OPTIMISTIC. HOWEVER, DESPITE THIS FACT THEY DO
REPRESENT A SCALING DOWN FROM THE FRG'S PREVIOUSLY
STATED THREE PERCENT GNP GROWTH EXPECTATIONS, A FACT
NOTED BY THE CSU'S FRANZ JOSEF STRAUSS, WHO CALLED
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BONN 01728 02 OF 03 311610Z

THE REPORT AN ADMISSION OF FAILURE BY THE GOVERNMENT.

THE IFO ECONOMIC RESEARCH INSTITUTE OF MUNICH
STATED SUBSEQUENT TO THE REPORT'S RELEASE THAT IT WAS
TOO OPTIMISTIC. THE INSTITUTE LOOKS FORWARD TO ONE
PERCENT GNP GROWTH AND AN AVERAGE UNEMPLOYMENT RATE
OF FOUR PERCENT IN 1975. ALSO, THE GERMAN FEDERATION
OF BUSINESS ASSOCIATIONS SAID THE REPORT'S GOALS ARE
NOT ACHIEVABLE AND THAT UNDER MOST FAVORABLE CONDITIONS
REAL GNP GROWTH WOULD COME TO ONE TO ONE AND ONE-HALF
PERCENT. AS REPORTED EARLIER, FRG OFFICIALS ALSO
PRIVATELY FORECAST IN THIS RANGE OF LOWER ECONOMIC
PROGRESS, A POINT OF VIEW WITH WHICH THE EMBASSY
ASSOCIATES ITSELF. END COMMENT.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 BONN 01728 03 OF 03 311616Z

46

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-01 CEA-01 PRS-01 PA-01 USIA-06 /080 W

----- 113541

P R 311553Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC PRIORITY 7637

INFO USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL FRANKFURT
AMCONSUL HAMBURG
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN

C O N F I D E N T I A L SECTION 03 OF 03 BONN 01728

7. BEGIN UNCLASSIFIED. FOLLOWING ARE EXCERPTS FROM
THE ANNUAL ECONOMIC REPORT FOR 1975 PROVIDING THE
GOVERNMENT'S TARGETED PROJECTIONS IN TERMS OF
PERCENTAGE CHANGE FROM THE PRECEDING YEAR (UNLESS
INDICATED OTHERWISE):

	1974	1975
GNP (1962 PRICES)	0.6	2
GNP (CURRENT PRICES)	7.0	8-9

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BONN 01728 03 OF 03 311616Z

PRIVATE CONSUMPTION	7.5	9-10
GOVERNMENT CONSUMPTION	16.0	10 1/2-11 1/2
FIXED INVESTMENT	-2.3	4-6
(THEREOF PUBLIC INVESTMENT)	(17.7)	(12-14)
CHANGE IN INVENTORIES, BILLION DM	2.4	(5-7)
NET FOREIGN BALANCE BILLION DM	38.5	35-38
PERCENTAGE OF GNP	3.9	ABOUT 3 1/2

NATIONAL INCOME	6.8	8-9
INCOME FROM BUSINESS AND PROPERTY	0	8-10
INCOME FROM WAGES	9.7	7 1/2-8 1/2

PRICE DEVELOPMENTS

PRIVATE CONSUMPTION	7.3	6
GNP	6.5	6-7

END UNCLASSIFIED
HILLENBRAND

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC PROGRAMS, ANNUAL REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BONN01728
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750036-0804
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975014/aaaaaczl.tel
Line Count: 331
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 BONN 1372, 75 BONN 19235, 75 DE13, 75 1974
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2003 by MartinML>; APPROVED <17 SEP 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FRG ANNUAL ECONOMIC REPORT FOR 1975 RELEASED
TAGS: ECON, EFIN, GE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006